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SUBJECT: NIGERIA: ELECTRICITY EXEC SEES NO LARGE INCREASE
IN POWER IN 2009

BUSINESS PROPRIETARY INFORMATION-NO DISTRIBUTION OUTSIDE USG

11. (SBU) Summary: The former country manager for GE Nigeria expects that due to a lack of domestic natural gas, Nigeria will see no significant increase in power generation in 2009. In a January 27 conversation, Ade Audifferen said the GON is focusing on transmission projects in the 2009 budget, but budget execution will remain problematic and many transmission projects are unexecuted line items from the 2008 budget. Power distribution remains an unattractive investment in large cities in Nigeria because of high rates of theft. While final investment decision on a ArcelorMittal pipeline fabrication facility in Calabar will be delayed until 4th quarter 2009, Audifferen expects the deal to go forward because ArcelorMittal views Nigeria as one of two strategically important countries. Audifferen's current employer, a diversified, Nigerian owned-energy company, has been visited in recent weeks by several European energy firms interested in entering the Nigerian upstream natural gas market. End Summary.

No Increase in 2009 Electricity Supply Anticipated

12. (SBU) A former GE executive now working for a diversified Nigerian energy company said that while construction continues on power plants across the Niger Delta, Nigeria will see little improvement in on-grid power generation in 2009 because new plants lack access to a reliable supply of natural gas. Ade Audifferen, the head of the power business unit of Global Energy Group (GEG), told Energyoff on January 27, that few of the power plants being constructed under Nigeria's National Integrated Power Project have the natural gas needed to start generating electricity, even if the plants are completed in 2009. As a consequence, he expects actual power generation to remain at its current level while theoretical capacity may increase slightly. To highlight his point, he noted that the 188 megawatt Ibom Power Plant in Akwa Ibom State is complete AND ready to operate, but remains off-line because it lacks a supply of natural gas.

3 (SBU) Additionally, the effects of poor project management continue to plague certain power plants. As an example, Audifferen said the power supply from the Chinese-built Omotosho plant in Ondo State is still intermittent, almost two years after an official ribbon cutting (by then President Obasanjo) marked its opening. According to Audifferen, the Chinese-built plant uses GE turbines that GE exported to

China in the late 1990's for use within China. The Chinese contractor re-exported the turbines to Nigeria and installed them in Omotosho, but has not been able to get them function properly; the GON has ordered that the contractor bring in GE to fix the problem, a costly process because of the age of the turbines and the fact that GE was not involved in their installation in Nigeria. (Note: The local press has reported that Omotosho also suffers from an unreliable gas supply. The plant's planned capacity is 335MW, but it typically generates less than 100MW per day. End Note.)

14. (SBU) According to Audifferen and an excerpt from Nigeria's 2009 budget which he shared, electricity transmission and distribution projects are the focus of the GON, with 19 billion naira (USD 131 million) allocated to distribution projects, 32 billion naira (USD 220 million) for transmission lines, and 21 billion naira (USD 144 million) for completion of ongoing power generation projects and refurbishment of existing power plants. Each of the 27 transmission line construction projects was listed in the budget by project name and cost. In contrast, the budget items for construction or refurbishment of power plants consisted of three lump sums with no clear indication of the amount of money allocated to each project. Audifferen noted that budget execution remains a problem and that many of the power infrastructure line items in this year's budget were left over from the 2008 budget.

15. (SBU) Audifferen mentioned that the Power Holding Company of Nigeria and Ministry of Electricity would cancel a consulting contract they have with the German engineering and

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consulting firm Lahmeyer. The firm is the overall project manager for the multi-billion dollar National Integrated Power Project, Nigeria's troubled plan to increase its power generation and transmission capacity. Audifferen said he thought the American company Parsons Brinckerhoff (PB) might be able to fill the role vacated by Lahmeyer. PB currently has a small oil and gas consulting presence in Nigeria.

16. (SBU) When asked about business opportunities in the electrical distribution market, Audifferen was restrained. While population centers like Lagos may look attractive because of the large number of customers, the dilapidated state of existing distribution networks and the low payment rates makes them long term money losers. He thought a city like Jos, that has a smaller population but one with a higher rate of payment by customers, might be a better market. In addition, the current emphasis, at least in Lagos, on getting existing customers to pay via existing metering methods is not likely to succeed. In his view, new, "smart distribution" equipment that shuts down power to a block or neighborhood in the event of tampering and collects metering data remotely is the only way to reduce power theft and bribery of meter readers by customers. As an interim step, he thought a government payment guarantee to distribution companies based on the number of registered customers and the power off-take agreements was the only way to make distribution viable as a private sector enterprise. In any case, his company is focusing on power generation and transmission, not distribution.

ArcelorMittal Still Planning for Nigeria Investment

17. (SBU) GEG has various business units operating across a variety of energy and infrastructure markets including oil exploration and production, electrical transmission, power generation (which Audifferen heads) and industrial project construction. Like other diversified energy companies working in the power sector in Nigeria (most notably Oando Plc), GEG focuses on building captive power generation facilities for large industrial customers. GEG is currently bidding to supply steel conglomerate ArcelorMittal with a 25 megawatt power plant to generate electricity for a proposed

steel pipe fabrication facility in Calabar, Cross River State. GEG is negotiating with Oando Plc for a gas off-take agreement, but Audifferen noted that dealing with Oando puts GEG in a difficult position. Oando has its own power generation business and uses its monopoly position as the sole gas supplier in the Calabar area to gather information on competitors' power supply bids then propose its own power project directly to the customer.

18. (SBU) Still, Audifferen was upbeat on the future of the ArcelorMittal deal. While a final investment decision is not expected until the 4th quarter of 2009 (18 months behind schedule), he said ArcelorMittal officials have told him the company views Nigeria as a strategically important country and it is committed to future investments in Nigeria despite recent cuts in capital expenditures worldwide. To better mitigate local risks, ArcelorMittal will reportedly offer a 40 percent stake in the new pipeline plant to local investors, up from initial plans to offer only 10 percent of the project to local partners. Audifferen said his company plans to leverage both its power generation and infrastructure construction businesses in any deal for the ArcelorMittal plant and it has been approached by the steel company about taking an equity position in the project.

New European Interest in Upstream Natural Gas

19. (SBU) Audifferen mentioned that his company's oil and gas business unit has had several visits in the past three weeks from central and eastern European energy gas companies seeking to either farm into existing oil and gas plays or participate in new natural gas exploration ventures in Nigeria. The European firm E.on Energie has show particular interest in gas exploration. Audifferen attributed the recent increase in European interest to the latest gas

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dispute between Russia and the Ukraine.

110. (SBU) Comment: Word that the ArcelorMittal project may press forward is rare positive note in an increasingly gloomy Nigerian economic scene. Nigeria's Gas Master Plan calls for USD 35 billion to be spent on natural gas infrastructure projects to connect gas fields in the Niger Delta to a variety of domestic and international markets. (Note: In the Ambassador's February 2 meeting with new Petroleum Minister Rilwanu Lukman, the minister stated that the GON's Gas Master Plan, although a good paper document, does not address immediate needs. Lukman said that he will be providing alternative, short-term recommendations to President Yar'Adua on the sector. End Note.) While plagued with uncertainty, when the troubled plan eventually gets straightened out the demand for tubular products, like those that will be produced at the future Calabar plant, will be enormous. End Comment.

111. (U) This cable cleared by Embassy Abuja.
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